

Key events this week – FOMC monetary policy meeting, US Non-farm payrolls & ISM surveys, prelim Euro Area GDP Q1 & CPI

Recap from last week: US inflation data didn't challenge the narrative that rate cuts could take longer to materialize.

The overall PCE inflation picture through Q1 was one of stalling progress on disinflation. The headline PCE inflation for Mar came in slightly higher than expected at +2.7% (expecting +2.6%) while the monthly pace was unchanged at +0.3%. Core inflation remained unchanged at +2.8% (expecting it to slow to +2.6%) while the monthly pace of core inflation also came in at +0.3%.

The Mar PCE inflation report contained notable revisions higher for Jan and Feb inflation. These revisions suggest that inflation pressure likely began to broaden out again (to more categories) after Nov 2023. Monthly services inflation has stayed stickier since Aug 2023 and has even started to trend slightly higher again. Importantly, this has been exacerbated by a smaller offsetting effect from goods deflation since Nov 2023, which then shifted to goods inflation, albeit at a low rate, over the last several months. The monthly trimmed mean and median inflation rates also suggest that inflation likely broadened out after Nov 2023. But after the notable increase in the monthly trimmed mean and median inflation in Jan, these measures abated in Feb and again in Mar – suggesting that this current inflation impulse is not continuing to broaden out (both measures are back to roughly average levels for the last half of 2023). That said, the FOMC is likely to remain concerned about the persistence of core inflation at +2.8%, services inflation at +4%, and core services ex-shelter inflation at +3.5% in Mar.

The strong outlook for US growth was tempered in Q1 GDP. The prelim Q1 GDP growth came in much lower than expected at +1.6% annualized (expecting growth to have eased to +2.5% annualized). The key driver of the lower growth in Q1 was the contraction in net exports (growth in exports slowed, while growth in imports increased at a faster pace than exports). Growth in final domestic demand, excluding the volatile external sector and inventories, eased to +2.8% (annualized) suggesting domestic demand growth remained more robust. The monthly PCE report for Mar showed improving momentum in household spending through Q1, underpinned by continued solid growth in income.

The prelim US PMI for Apr suggested a slowdown in growth momentum across both manufacturing and services coming into Q2. The manufacturing PMI edged down to just below the neutral level while services activity slowed to only a modest pace of expansion. The key themes from the report were weaker demand as orders contracted across both manufacturing and services, a fall in services employment, and weaker business sentiment. Input prices increased while output price growth eased.

More broadly, the G4 prelim PMIs for Apr suggested a continued improvement in the pace of economic momentum. This was led by an acceleration in service sector activity.

The BoJ met last week and kept policy settings unchanged.

Outlook for the week ahead: The FOMC and US non-farm payrolls will be the highlights of the week.

The FOMC is expected to keep policy settings unchanged this month. The main insight will be into how the FOMC is characterizing the view of inflation and growth over Q1 and what it means for the policy outlook. Fed Chair Powell's comments at the press conference will be important. The FOMC

is likely to maintain its stance that it needs greater confidence that inflation is moving sustainably to 2% before it begins to lower policy rates and that it has time to be patient on rate cuts. The previous meeting minutes already noted concerns over firmer inflation readings. We won't know the degree to which participants are shifting rate cut projections until the update of the SEP at the Jun meeting. Guidance at the last meeting noted that "almost all participants judged that it would be appropriate to move policy to a less restrictive stance at some point this year if the economy evolved broadly as they expected". At the last meeting, the FOMC also discussed slowing the pace of QT, judging that "it would be prudent to begin slowing the pace of runoff fairly soon". This could be addressed as soon as the meeting this week.

Another crucial element bolstering the Fed's commitment to maintaining its patient stance on restrictive policy is the robust state of the labor market. This week will feature a broad update on US labor market conditions for Apr. Non-farm payroll growth is again expected to ease to +243k from the +303k growth in payrolls in Mar. The unemployment rate is expected to stay unchanged at 3.8%. Average weekly hours are also expected to stay unchanged at 34.4. Job openings for Mar are expected to ease again to 8.68m from 8.75m in Feb. The quarterly employment cost index is expected to remain elevated at +1% for Q1 (versus +0.9% in Q4 2023).

The Apr ISM PMI surveys (and the final S&P PMIs) will provide further insight into manufacturing and services growth momentum going into Q2.

The Euro Area prelim Q1 GDP is expected to show a slight improvement in growth to +0.1% from the stalled pace of 0% in Q4 2023. The prelim CPI for the Euro Area in Apr is expected to show little change to headline inflation at +2.4%, but some easing in core inflation to +2.6% in Apr.

The full suite of global PMIs for Apr will be released this week.

The US Treasury will also release its latest quarterly financing requirements for Q2 and estimates for Q3.

US Treasury Issuance; 29 Apr – 3 May 2024

This week, the US Treasury will auction and settle approx. \$659bn in ST Bills, Notes, Bonds, and FRNs, raising approx. \$40bn in new money.

QT this week: Approx \$17.4bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$22bn in Notes and Bonds will mature on the Fed balance sheet and will be redeemed.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
29 Apr - 3 May	25-Apr	30-Apr	4 week bill	70			Actual 5.275%	5.280%
	25-Apr	30-Apr	8 week bill	75			Actual 5.275%	5.275%
	24-Apr	30-Apr	17 week Bill	60			Actual 5.240%	5.240%
				205	221	-16		
	29-Apr	02-May	13 week bill	70			Announced	5.255%
	29-Apr	02-May	26 week bill	70			Announced	5.160%
	30-Apr	02-May	42-Day CMB	65			Announced	5.285%
				205	222	-17		
	18-Apr	30-Apr	5-Year TIPS	23			Actual 2.242%	1.710%
	24-Apr	30-Apr	2yr FRN	30			Actual 0.150%	0.190%
	24-Apr	30-Apr	5yr Note	70			Actual 4.659%	4.235%
	25-Apr	30-Apr	7yr Note	44			Actual 4.716%	4.185%
	23-Apr	30-Apr	2yr Note	69			Actual 4.898%	4.595%
	17-Apr	30-Apr	20yr Bond	13			Actual 4.818%	4.542%
				249	176	73		
			Total - securities settling this week	659	619	40		
			Net New Cash Raised Qtr to Date	2691	2654	37		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			202		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		30-Apr	Notes & Bonds	1.2				
		30-Apr	ST Bills	0.7				
		02-May	ST Bills	15.6				
				17.4				
			Maturing & redemption (balance sheet roll-off)					
		30-Apr	Notes & Bonds	22.6				

Quantitative Tightening Overview – May 2024

In May, the face value of Coupons maturing on the Fed balance sheet is approx. \$90.1bn. This is more than the \$60bn monthly cap for balance sheet roll-off. So of the \$90.1bn of Coupons maturing in Apr, \$60bn will roll off the Fed balance sheet and \$30.1bn will be reinvested. It also means that all ST Bills maturing in May will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap – May				
			\$60	
			Redeem \$Bn	Reinvest \$ Bn
15-May-24	Notes & Bonds		31.3	15.7
31-May-24	Notes & Bonds		28.7	14.4
	ST Bills		0.0	70.4
	Total Notes & Bonds		60.0	100.5

May 2024 ST Bill maturity schedule;

Bill Maturity Schedule - MAY			Weekly Totals \$Bn	
Par Value of Bills Maturing	% Maturity by Wk		Bill Redemption	Bill Reinvestment
2024/05/02	15.57	37%	0.00	15.57
2024/05/07	0.65	2%	0.00	0.65
2024/05/09	11.97	28%	0.00	11.97
2024/05/14	0.65	2%	0.00	0.65
2024/05/16	18.49	43%	0.00	18.49
2024/05/21	0.67	2%	0.00	0.67
2024/05/23	11.16	26%	0.00	11.16
2024/05/28	0.58	1%	0.00	0.58
2024/05/30	10.61	25%	0.00	10.61
	70.4		0.00	70.4

<https://www.newyorkfed.org/markets/treasury-rollover-faq>

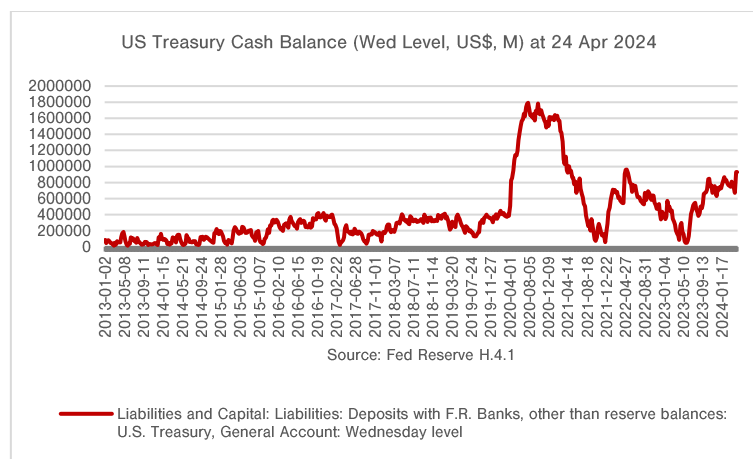
Recommended US Treasury Financing – Q1 and Prelim Q2 2024

Q1 2024; The estimate of the US Treasury borrowing requirement for Q1 is \$760bn in privately-held net marketable debt, assuming an end-of-Q1 cash balance of \$750bn. The borrowing estimate is lower (than the prelim estimate) due to 'higher net fiscal flows' and a higher cash balance at the start of the quarter.

Q2 2024 prelim; The US Treasury expects to borrow \$202 billion in privately held net marketable debt, assuming an end-of-June cash balance of \$750 billion. The updated Q2 requirements will be released this week.

US Treasury Cash Levels (TGA)

As of Wed 24 Apr 2024, the level of the TGA was little changed at \$929bn (-\$0.5bn compared to the week prior). The TGA balance is approx. \$633bn *higher* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H4.1&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

QE Program

There are no Treasury or MBS purchase operations scheduled at this time. Links to historical operation schedules; -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ombs_operation_schedule

CALENDAR W/C 29 APRIL 2024

MONDAY 29 APRIL (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Index (Apr)
Japan	Industrial Production – Prelim (Mar), Retail Trade (Mar)
Australia	Retail Sales (Mar), Private Sector Credit (Mar)
China	NBS Manufacturing and Non-Manufacturing PMI (Apr)

TUESDAY 30 APRIL

Europe	Euro Area CPI – Prelim (Apr), GDP Q1 - Prelim
US	Employment Cost Index Q1, Case/Shiller House Price Index (Feb), Chicago PMI (Apr)
NZ	Labour Market Survey Q1
Australia	S&P Manufacturing PMI – Final (Apr)
Japan	S&P Manufacturing PMI – Final (Apr)

WEDNESDAY 1 MAY

US	MBA Mortgage Apps wk ending 27 Apr, ADP Employment Change (Apr), S&P Manufacturing PMI – Final (Apr), ISM Manufacturing PMI (Apr), JOLTS (Mar) FOMC Monetary Policy Decision
Japan	BoJ Minutes

THURSDAY 2 MAY

Europe	Eurozone S&P Manufacturing PMI – Final (Apr)
US	Initial Jobless Claims wk ending 27 Apr, Challenger Job Cut Announcements (Apr), Non-farm Productivity & Unit Labor Costs Q1, Factory Orders (Mar)
Australia	S&P Services PMI – Final (Apr), Housing Finance (Mar)

FRIDAY 3 MAY

US	Non-Farm Payrolls (Apr), Labor Force Household Survey - Employment, Unemployment, and Participation (Apr), Avg Weekly Hours (Apr), Avg Hourly Earnings (Apr), S&P Services PMI – Final (Apr), ISM Services PMI (Apr) Fed speeches; Williams, Goolsbee
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